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Al Qaeda Terrorist Financing and Technologies to Track the Finance Network

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The University of Texas at Dallas
Department of Computer Science
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Irina Sakharova and Weili Wu
ABSTRACT

This is the second in a series of reports we have written on International Terrorism and the application of information technology to combat terrorism. In our first report we discussed the following topics: Hamas, al Qaeda, Hezbollah and Aviation Terrorism. In particular, we discussed the facts and gave an analysis. Then we discussed the application of information technology. In this second report we have taken one aspect of our previous work and expanded on it and that is on analyzing terrorist financing. In particular, we have examined the financing of the al Qaeda terror network and determined how information technologies may be used.

This is the third in a series of reports we are writing on Security Studies and the application of information technology for providing security and combating terrorism. We will include papers on both cyber security and national security. The purpose of these series of reports is to guide us in the technologies we are developing for both cyber security and national security. The technologies include systems for assured information sharing and assured cloud computing and tools for secure social network analysis and data mining for security applications such as malware detection. Our research to develop these technologies is supported by the Air Force Office of Scientific Research.

DISCLAIMER: The Views and Conclusions contained in this report are those of the authors and do not reflect the policies and procedures of the University of Texas at Dallas, the United States Government or the Air Force Office of Scientific Research.

1. Introduction

Terrorism can be traced back to the origins of mankind. Whenever people formed groups, one group competed against the other resulting in violence and terrorism. As stated in [1], Terrorism is the systematic use of terror especially as a means of coercion. It is also stated that at present, the International community has been unable to formulate a universally agreed, legally binding, criminal law definition of terrorism. Common definitions of terrorism refer only to those violent acts which are intended to create fear (terror), are perpetrated for an ideological goal, and deliberately target or disregard the safety of non-combatants (civilians).

There are different types of terrorism. One is single issue terrorism where anti-abortion groups or animal rights groups inflict fear and engage in violence. Another is terrorism due to political violence where one ethnic group fights against another. A third is right and left wing terrorism and the fourth is terrorism due to the differences in religious beliefs. In each type of terrorism, the terrorists create fear and cause harm to promote their beliefs and ideologies. Some of the terrorist groups are random groups, while some are organized and have a central structure, while still some others are organizers and have a decentralized structure.

Our goal is to apply information technologies to combat terrorism. However, one size does not fit all. In order to effectively apply technologies, we need to understand the way terrorists function, their structure, financial networks, beliefs, ideologies and tactics. If the group is predictable, then
we need certain types of technologies. If the group is unpredictable, then we need adaptable
techniques to detect their activities.

In our previous report [2], we examined three terrorist groups (Hamas, al Qaeda and Hezbollah) as
well as aviation terrorism and then examined the role of information technology to combat
terrorism. In this report we have taken one aspect of the problem and that is the financial network
of terrorists. In particular, we have studied the financial network of al Qaeda and examined how
information technologies may be applied to disrupt this network.

This report is divided into two parts. Part 1 consists of six sections: 2, 3, 4, 5, 6 and 7. These
sections describe the various aspects of terrorist financing. Part 2 consists of four sections: 8, 9, 10,
and 11. These sections describe technologies. In particular, it focuses on data mining and social
network technologies for analyzing the terrorist finance network and examining the actions to take.
The report is concluded in section 12. Each part is self-contained and has all the references listed at
the end of the part. Note that the references in Part 1 are included as footnotes in the text. Many of
these footnotes are replicated in the reference section.

The work in this report was partially funded by the Air Force Office of Scientific Research under
contract FA9550-09-1-0468. Studying and disrupting the terror finance network is an application
of the research we are conducting on secure semantic web and information fusion.

REFERENCES

[2] B. Thuraisingham, Selected Topics in International Terrorism and the Application of Information
Technology: Volume I: Terrorism Tactics, Trends, and Technologies, UTD Technical Report, UTDCS-
19-10.

PART 1: Financing of Al Qaeda Network

2. Importance of cutting terrorist financing.

*We will direct every resource at our command - every means of diplomacy, every tool of
intelligence, every instrument of law enforcement, every financial influence, and every necessary
weapon of war - to the destruction and to the defeat of the global terror network... We will starve
terrorists of funding...*

—President George W. Bush, 24 September 2001

It is beyond a doubt that disrupting terrorist financing is necessary. As President George W. Bush
stated in his speech on September 24, 2001, financial recourses are considered to be “the lifeblood
of terrorist operations today” 1. The highest-level U.S. government officials publicly declared that
the fight against al Qaeda financing was as critical as the fight against al Qaeda itself2. One of the
key goals of defeating terrorism is to fight the financial structure of terrorist organizations by
detecting, disrupting and disabling their financial networks.

The General Assembly of the United Nations adopted the International Convention for the
Suppression of the Financing of Terrorism in 1999, however, only a few countries had become

1 Transcript of President Bush's address September 21, 2001 Available at

2 National Commission on Terrorist Attacks on the United States, Monograph on Terrorism Financing
11commission.gov/staff_statements/911_TerrFin_Monograph.pdf
parties to the convention before September 113. The U.S. ratified the convention only in 2002 with
the beginning of the campaign to “starve the terrorists of funding”. Since the beginning of the War
on Terror in 2001, numerous initiatives and policies at the national, regional and international
levels supplemented the convention. A series of new international laws that have criminalized the
financing of terrorist activities were introduced by many countries.

Simply, the financing of terrorism is the financial support, in any form, of terrorism or of those
who encourage, plan, or engage in it4.

There is a good deal of available information on various sources and methods of transferring
funds used by terrorists. Funds come from a wide range of legitimate (donations to charitable
organizations, front businesses) and illegitimate (petty crime, smuggling, credit card fraud, and
drug trafficking) sources. Terrorists move money using the financial system and unregulated
alternative remittance systems like hawala or just simply physically carry it across international
borders. They store cash in commodities such as diamonds, tanzanite, and sapphires5. The
adaptability shown by terrorist organizations suggests that all the methods that exist to move
money around the globe are to some extent at risk6.

In reality, preventing terrorist financial flows has been a nearly impossible task. Nevertheless,
tracking al Qaeda’s money is an effective way to locate terrorist operatives and supporters and to
disrupt their deadly plots.

Interestingly enough, al Qaeda spent only comparatively modest funding on the planning and
execution of its terrorist attacks. However, it needs significant amounts of money to meet the
broader organizational costs of developing and maintaining a terrorist organization and to create
an environment necessary to sustain their activities.

Costs of day to day operations such as organizing, recruiting, training, and equipping new recruits,
paying members and their families, bribing public officials, traveling, promoting al Qaeda’s
ideology and otherwise supporting their activities represents a significant drain on resources.

Disrupting terrorist financing can increase the terrorists’ costs and risks of raising and moving
funds and creates a hostile environment for terrorism, constraining overall capabilities of terrorists
and helping frustrate their ability to execute attacks7.

3. Description of the Al Qaeda’s financial network.

There is no other terrorist organization that has built such a sophisticated, complex, robust and
adaptive-to-change global financial network like al Qaeda’s. It is based on a system that was built
by Bin Laden to provide support to the mujahideen fighters in Afghanistan during the Soviet war
in the late 1980s. It uses different sources of funding and a variety of methods of storing and
transferring funds. “The most important source of al Qaeda’s money, however, is its continuous
fund-raising efforts. al Qaeda’s global fund-raising network is built upon a foundation of

3 Anne Clunan, “U.S. and International Responses to Terrorist Financing,” in Giraldo and Trinkunas, eds.,
Terrorist Financing and State Response.
4 World Bank and International Monetary Fund, Reference Guide to Anti-Money Laundering and Combating
FINANCING” Testimony Before the Committee on Financial Services, Subcommittee on Oversight and
Investigations, House of Representatives April 6, 2006
5 Laura K. Donohue Anti-Terrorist Finance in the United Kingdom and United States Available at
http://students.law.umich.edu/mjil/article-pdfs/v27n2-donohue.pdf
gafi.org/dataoecd/28/43/40285899.pdf
7 Ibid.
Although al Qaeda’s financial network has certainly been weakened by the War on Terror, it certainly has not been destroyed. While new financial sector regulations made it more difficult for terrorist groups to move funds around the world, al Qaeda’s financiers have quickly adapted to the new environment.

Terrorists have been forced to move their organizations outside the formal financial system. Even before 9/11, al Qaeda and its cells used the global financial system to move the funds very cautiously in a manner that does not arouse suspicion. In response to the new anti-terrorism financing policies, they became even more cautious. Most likely, instead of moving funds through the financial system, terrorist groups are using other channels of transferring funds and other means of storing wealth such as trade in commodities like gold and diamonds, bulk cash smuggling and underground banking systems such as hawala.

“Dennis M. Lormel, a former head of the FBI's Terrorist Financing Operations section, said the laws passed since 2001 have closed some gaps and addressed vulnerabilities that made it easy for al Qaeda to raise and transfer money, however the network has responded quickly”⁹. Loretta Napoleoni, author of "Modern Jihad: Tracing the Dollars Behind the Terror Networks" says "Terrorist financing is very different today…five years ago, we had large movement of funds which went through the international financial system”¹⁰. Today cells are raising their own money instead of receiving funds transferred from external sources that could be easily tracked by law enforcement officials.

Al Qaeda’s affiliated groups have become self-funded by deriving income from local legitimate businesses or from various criminal activities such as petty crime, fraud, racketeering, kidnapping. Because of the small scale of such transactions, law enforcement officials have little reason to suspect the involvement of terrorists. "That's the cleverness of these schemes - to keep it under the radar," said Stephen Swain, former head of Scotland Yard's international counterterrorism unit. "By doing this, they can raise significant amounts of money, fairly quickly, and there's no real way to detect it.”⁵

Today's al Qaeda is so fragmented that it is impossible to view it as a single organization. In the last few years, al Qaeda has transformed from a group with hierarchical organization with a large operating budget into an ideological movement with affiliated groups around the world. Al Qaedaism inspires individuals or small groups to carry out attacks, without operational support from the central organization. Because cells became self-sufficient deriving income from local legitimate businesses or from various criminal activities, it makes it harder for law enforcement officials to track the group’s activities and capture their members.

The weakened financial state of al Qaeda should not be underestimated as it still poses a threat. Terrorist attacks are relatively cheap. Estimates suggest that al Qaeda spent $500,000 on the 9/11 attacks, which came from an established financial network. In comparison, the group that carried out the Madrid bombings of 2004 used only $10,000-$15,000, which was generated by trafficking drugs and selling counterfeit CDs. The London bombings of 2005 were even cheaper: $2,000, money that most likely was personal savings. This is a main difference between top-down al

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⁶ Cited in Why terror financing is so tough to track down by Mark Rice-Oxley available at http://www.csmonitor.com/2006/0308/p04s01-woeu.html
Qaeda, as it once was, when it funded operations from Afghanistan, and the new much looser organization of localized affiliates inspired by Al Qaedaism, that raise their own funds and pick their own targets.

4. History and development of al Qaeda and its financial network

The leader of al Qaeda, Osama Bin Laden was born in Saudi Arabia in 1957. His father, Muhammad bin Laden came from Yemen and rose from the poverty to being Saudi’s Arabia foremost construction magnate who made his fortune building palaces for the Saudi royal family. Osama got his inheritance at 11 when his father died in a helicopter crash in 1968. Estimates of his wealth range from $30 million to $300 million, but it's hard to say how much is left, since he has used his fortune to fund al Qaeda and he keeps his assets hidden. His family, which controls the Saudi Binladin Group, a multibillion-dollar conglomerate, has distanced itself from Osama, but U.S. investigators suspect some family members continue to act as conduits to family accounts.11

While studying at the King Abdel Aziz University in Jidda, bin Laden was greatly influenced by Abdullah Azzam, a highly influential Palestinian Sunni Islamic scholar and theologian. Azzam then became his mentor in Afghanistan and ideological father of al Qaeda. In 1979 when the Soviet Army invaded Afghanistan, Osama left Saudi Arabia to join the Afghan rebels, the mujahedin, in their fight with the Soviets. Although Bin Laden came from the rich and privileged family, he was committed to the cause, and that raised his credibility and popularity among mujahedin. “He not only gave us his money, but he also gave himself”13.

In 1984, Abdullah Azzam and Osama bin Laden cofounded the Maktab al Khidmat (MAK) or Afghan Bureau of Services, which was later reconfigured by Bin Laden into an organization called al Qaeda (The Base). Bin Laden became the group’s chief financier and a major recruiter of Muslims known as “Afghan Arabs”. MAK provided logistical help, raised funds, disseminated propaganda, recruited new members and channeled foreign assistance to the mujahedin. MAK distributed $200 million of Middle Eastern and Western aid, mainly American and British, destined for the Afghan jihad. MAK received the funds from various sources. Bin Laden used his family wealth to help the rebels. He also raised money among wealthy Gulf Arabs, and through charity organizations. MAK closely worked with Pakistan's ISI, the Inter Services Intelligence which was channeling weaponry and funds from the CIA and providing training for mujahedin. During the Afghan war, the Central Intelligence Agency provided roughly $500 million a year in material support to the Mujahedin. Milton Bearden, who ran the covert program during its peak years—1986 to 1989—says the CIA had no direct dealings with bin Laden. But U.S. officials acknowledge that some of the aid probably ended up with bin Laden's group anyway.16

Near the end of the Soviet-Afghan war, Azzam’s and Osama’s relationship deteriorated as they disagreed on a number of issues. Azzam wanted to use mujahedin as a “rapid reaction force” ready to fight on behalf of oppressed Muslims worldwide. Osama and Ayman al Zawahiri, his new mentor, who at the time was the head of Egyptian Islamic Jihad, wanted to recreate the Islamic Caliphate by declaring war on corrupt governments in the Middle East and on the United States, as most of these governments were American allies. He wanted to transform MAK into “the base” or al Qaeda, an organization which would serve as a foundation upon which a global

11Profile: Osama bin Laden http://www.cfr.org/publication/9951/profile.html
http://www.time.com/time/covers/1101010924/wosama.html
14 Rohan Gunaratna, “Inside al Qaeda: Global Network of Terror”
15 Audrey Kurth Cronin “Foreign Terrorist Organizations” February 6, 2004 CRS Report for Congress
http://www.time.com/time/covers/1101010924/wosama.html
Islamic army would be built. According to many insiders, al Zawahiri transformed Osama from a guerilla into a terrorist. The two wanted to train the mujahedin in terrorist tactics. Azzam issued fatwa that using jihadi funds to train in terrorist tactics will violate Islamic law. As this tension and Osama’s desire to reconfigure MAK into al Qaed grew, it became obvious that the power struggle between Azzam and bin Laden would end only with the removal of one of them. Azzam and his two sons were killed in 1989. Although it is uncertain who killed him, in his book “Inside al Qaed: Global Network of Terror”, Rohan Gunaratna, an international terrorism expert, suggests that Azzam was killed by the rival Egyptians who acted on bin Laden’s orders. In any case, Azzam’s assassination left Osama bin Laden in control of al Qaed’s future.

Following the withdrawal of the Soviet Army from Afghanistan in the late 1980’s, bin Laden returned back to Saudi Arabia. In 1990 Iraq invaded Kuwait and Osama offered the Saudi army the help of Arab veterans of the Afghan. Instead, the Saudis accepted U.S. help and invited U.S. troops for the first time ever. Like many other Muslims, bin Laden saw the U.S. army’s presence as a violation of the sanctity of Muslim territory.

Bin Laden began to give speeches accusing the Saudi regime of corruption and being un-Islamic. King Fahd placed him under virtual house arrest in 1991, and later that year Osama fled the country. Later in 1994, the Saudi government stripped bin Laden of his citizenship and said it had frozen his assets. After he left Saudi Arabia in 1991, bin Laden moved to Sudan where he was invited by the National Islamic Front. He brought resources to Sudan, building roads and helping finance the government’s war against separatists in the south. He also started a series of businesses which proceeds he used to finance some of al Qaed’s operations. In Sudan he built al Qaed’s infrastructure based on the organization he established in Afghanistan. Al Qaed began to spread its network around the world with its regional centers in London, New York, Turkey and other countries. In the early 1990’s bin Laden was focused on launching attacks on the United States, “the head of the snake” as he called the United States. In the period between 1992 and 1996, al Qaed carried out its first attacks in Yemen, Somalia and Saudi Arabia aimed at Americans.

U.S. and Saudi pressure forced bin Laden to abandon Sudan in 1996. The Sudanese government expropriated his assets after he left the country. Bin Laden moved to Afghanistan, where the Taliban offered him protection in exchange for money and a supply of hundreds, if not thousands, of fighters to support the Taliban regime. In 1997 and 1998 bin Laden was working on creating alliances with other Islamist groups by sending deputies to their leaders and telling them that they had to unite in coalition to mobilize the Muslims against the Americans. As a result, in 1998 al Qaed formed an alliance with other terrorist groups: the Egyptian Islamic Jihad, Islamic Group of Egypt, Jamiat Ulema-e-Pakistan, Jihad Movement of Bangladesh. Bin Laden and Al Zawahiri, the leader of the Egyptian Islamic Jihad, issued fatwa in 1998, just half a year before the attacks on the U.S. embassies in Kenya and Tanzania, in which they announced “ruling to kill the Americans and their allies - civilians and military - is an individual duty for every Muslim who can do it in any country in which it is possible to do it, in order to liberate the al-Aqsa Mosque and the holy mosque [Mecca] from their grip, and in order for their armies to move out of all the lands of Islam.” Saudi Arabia attempted to pressure the Taliban into turning bin Laden over to them after the 1998 bombings. The Taliban’s refusal to do so led to the recall of the Saudi ambassador and a break in diplomatic relations.

And then there were the 9/11 attacks. The Federal Bureau of Investigation stated that “the evidence linking al Qaed and Bin Laden to the attacks of September 11 is clear and

irrefutable. The attacks aimed to halt economic and political power of the United States; and had the most devastating casualties than any other terrorist attack ever known.

According to the 9/11 Commission’s report, the September 11 hijackers used U.S. and foreign financial institutions to hold, move and retrieve money. Terrorists deposited money into U.S. accounts by wire transfers and deposits of cash or travelers checks brought from abroad. Some of them had account at foreign banks and withdrew funds through ATM and credit card transactions. The hijackers received funds from facilitators in Germany and the United Arab Emirates or directly from Khalid Sheikh Mohamed as they travelled through Pakistan on their way to the United States. The hijackers returned about $26,000 “unused” money to a facilitator in the UAE a few days before carrying out the attacks.

Osama bin Laden’s foremost accomplishment was building al Qaeda’s financial network. It was built from the foundation of MAK’s system designed to channel resources to the mujahidin. Most of al Qaeda’s infrastructure was developed in the late 1980’s. At that time bin Laden started to develop a strategy to make his organization financially self-sufficient. Not only did he want to establish a fundraising system, he also was interested in finding ways of transferring funds to finance al Qaeda’s operations around the world. Bin Laden used a variety of sources to raise funds for al Qaeda. Besides the network of charities developed by Azzam and bin Laden’s personal contacts with Saudi charities and wealthy donors, Mohammad Jammal Khalifa, bin Laden’s brother-in-law, established a number of charities and Islamic organizations in the Philippines; a number of other charities were established in Malaysia and Indonesia. One of the reasons why Southeastern Asia was appealing to al Qaeda was the network of Islamic charities, poorly regulated Islamic banks, and ease of money laundering (business-friendly environments and economies that already had a record of extensive money laundering). These conditions made it easy to collect and move funds to the banks in Middle East or to the offshore banks around the world. Charities were the main pillar in al Qaeda’s financial structure. Aside from helping to raise funds, some charities could also move these funds between their offices around the world. However, the majority of all charities were not aware that al Qaeda operatives were working for these charities or that funds were used to support terrorist activities.

For many years, it was thought that he used his personal wealth to finance his organization. It was thought that he inherited about $300 million, money that he used in Sudan and Afghanistan. However, the National Commission on Terrorist Attacks on the United States in Monograph on Terrorist Financing dispels this myth. From about 1970 until 1993 or 1994, bin Laden received

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21 Khalid Sheikh Mohamed (KSM) was arrested in Rawalpindi, Pakistan on March 1, 2003 and sent to the US detention centre in Cuba in 2006. According to the transcripts released he served as the head of al Qaeda military committee and was Osama bin Laden’s principal al Qaeda operative who directed September 11, 2001 attacks in the United States. He also admitted responsibility for the 1993 attack on the World Trade Center in New York, the bombing of nightclubs in Bali in 2002 and a Kenyan hotel in the same year and some other terrorist attacks plots. At a pre-trial hearing at Guantanamo Bay in December 2008, KMS said he wanted to plead guilty to all charges against him. However, it is known that he was waterboarded 183 times during 2003 by US interrogators. On November 13, 2009 Attorney General Eric Holder announced that KMS will face federal court instead of military tribunal.


23 Funding terrorism in Southeast Asia: The Financial network of Al-Qaeda and Jemaah Islamiya. By Zachary Abuza
about a million dollars per year, which is about $23-$24 million but not the $300 million fortune\textsuperscript{24}. As mentioned before, the Saudi government froze his assets when he left the country. Also his assets in Sudan cannot be viewed as the source of the money since the Sudanese government expropriated these assets. After moving back to Afghanistan, bin Laden was in a weak financial state. After establishing itself in Afghanistan, al Qaeda relied on fundraising efforts to support itself. It appears that al Qaeda directly received funding from wealthy donors through financial facilitators. Most of these wealthy donors were from the Persian Gulf region and known as Golden Chain. As with charities, not all of the individual donors who were approached by the facilitators, charity officials and fundraisers knew of the destinations of their donations.

It was long thought that Saudi Arabia was a primary source of al Qaeda funding. However, there was no evidence found to support that allegation. Moreover, there is no convincing evidence that any government provided any financial support to al Qaeda. Still, some governments knew about al Qaeda’s fundraising activities in their countries and turned a blind eye to it\textsuperscript{25}.

As noted earlier, after the 9/11 attacks and the beginning of the War on Terror, al Qaeda’s funding declined substantially. Despite the reduction in al Qaeda’s funding, it is important to remember that relatively small sums are needed to carry out a terrorist attack. With al Qaeda’s decentralization, individual cells became self-sufficient with charities and individual donors still being the main source of funding for these groups.

5. Organizational structure. Control over finances within al Qaeda.

Prior to 9/11, al Qaeda was a centralized organization with headquarters located in Afghanistan. Osama bin Laden was in firm control over the organization - he approved all al Qaeda’s operations often selecting targets and operatives. Some terrorist experts compare the al Qaeda structure to a business enterprise. Peter Bergin thinks that al Qaeda resembles Saudi Binladin Group, the giant construction company founded by Osama’s father\textsuperscript{26}, where bin Laden acted as Director who formulated general policies in consultation with his shura or advisory council which represents a circle of bin Laden’s close associates. These top advisors make executive decisions for the group. Immediately below the shura council and reporting to it are six committees\textsuperscript{27}: “Sharia” and Political Committee responsible for issuing fatwas; Military Committee responsible for proposing targets and planning of attacks; Security Committee responsible for physical protection, intelligence collection; and Information Committee responsible for propaganda; Finance Committee; Foreign Purchase Committee\textsuperscript{28}.


\textsuperscript{26} Peter Bergin Holy War, Inc (New York: Simon and Schuster, 2002)

\textsuperscript{27} Gunaratna and Bergin name only four committees: military, finance, ideological and media

Al Qaeda Organizational Structure. Source: “Overview of the Enemy” National Commission on Terrorist Attacks on the United States. 16 June 2004

There are two Committees in this structure that are related to finance: Finance and Foreign Purchases Committees that consisted of professional bankers, accountants and financiers. The Finance Committee was responsible for fundraising and budget planning issues, such as support for training camps, living expenses, travel, housing costs, salaries etc. The purpose of Foreign Purchase Committee was to acquire weapons, explosives, and technical equipment from abroad. However, the National Commission on Terrorist Attacks stated that this structure served as a means for coordinating functions and providing financial support to operations. Specific operations were assigned to carefully selected cells, headed by senior al Qaeda operatives who reported personally to bin Laden.

For instance, Indonesia's civilian intelligence service has linked Hambali, whose real name is Riduan Isamuddin, with the 2002 Bali attack. He is believed to have been in control of the operation, as well as the financial conduit. Financial operations worldwide were managed by regional managers. For example, Muhammad Jamal Khalifa, bin Laden’s brother-in-law, was responsible for worldwide investments in Mauritius, Singapore, Malaysia and the Philippines. He also was in charge of financial support for the Operation Bojinka plot, the large-scale terrorist attack by Ramzi Yousef and Khalid Shaikh Mohammed to blow up twelve airliners over the Pacific planned to take place in January 1995.

As the U.S. military’s Operation Enduring Freedom in Afghanistan was launched on October 7, 2001 in response to the September 11, 2001 attacks on the U.S., al Qaeda has lost its “safe heaven” for planning terrorist attacks, as well as the majority of its senior leadership; and been forced to decentralize. However, experts fear that al Qaeda is structured in such a way that it can operate without a centralized command.

Ongoing counterterrorism operations have isolated al Qaeda’s leadership. Al Qaeda’s command cadre has been on the run and they are more preoccupied to evade being captured or killed. Communication, coordinating of complex operations as well as raising and transferring funds between center and cells have become extremely hard and risky for terrorists due to isolated leadership. However, new operatives are emerging to replace old leaders. These emerging leaders

29 Rohan Gunaratna, “Inside al Qaeda: Global Network of Terror”
30 Hambali: 'Asia's Bin Laden' BBC News Last Updated: Wednesday, 6 September 2006 Available at: http://news.bbc.co.uk/2/hi/asia-pacific/2346225.stm
31 Rohan Gunaratna, “Inside al Qaeda: Global Network of Terror”
can be viewed as a proof that al Qaeda can adapt to new circumstances and regain its leadership. They are no longer old school veterans of 1980’s Afghan war, but they are assuming greater responsibilities and autonomy. They are less able to communicate with each other and they are spread around the world. al Qaeda has not been destroyed but has been dispersed around the world, making it harder for law enforcement officials to capture group's members and track their activities.

Al Qaeda went through a transformation, from a territorially-based group with hierarchical organization to a more decentralized, ideological movement relying on either self-sufficient cells or affiliated groups to carry out its attacks. The 2003 suicide attacks in Casablanca and Istanbul were carried out by attackers from different groups but all of them were linked to al Qaeda.

Prior the September 11, cells were encouraged to be self-sufficient for all their expenses apart from operational expenses. Al Qaeda’s headquarters raised funds for training, propaganda and operational expenses. Cells were expected to raise money to cover living expenses. As al Qaeda has become decentralized, its financial network has also become decentralized. The September 11 attacks were the last attacks that were planned, funded and carried out under direct supervision of al Qaeda’s command cadre. The subsequent attacks were executed by individuals and groups that are only linked to al Qaeda ideologically.

A decentralized network of self-sufficient cells is more flexible and less vulnerable to attacks. Local cells and affiliated groups need less funds; the means used to raise money vary widely and depend on local conditions; there is less need for fund transfers and communication between groups is minimal. These groups are more autonomous in their operation and self-funded by deriving income from local legitimate businesses or from various criminal activities. The small scale of their fundraising operations generally does not raise suspicion of terrorist involvement. Besides, in case of attack on one source of the funding, terrorists can easily shift to another.

Since the beginning of the War on Terror, the U.S. government together with the European Union and other members of the international community, launched a major effort to disrupt terrorist financing around the world, putting into force numerous laws and regulations. Dozens of charities have been closed, more than 172 countries have issued orders freezing millions of terrorist assets, more than 100 countries worldwide have introduced new terrorist-related legislation and regulations, including new laws to block money laundering. Al Qaeda’s financial network has been disrupted significantly. With several important financial facilitators being killed or arrested, the amount of funds raised has decreased and risks of raising and transferring money have increased. In an audio message intercepted by CBS News in 2009, and sent by Mostafa Abul Yazid, the terror group's chief financial manager is heard asking an unknown contact in Turkey for urgent financial support. "We are lacking funds here in the Afghan jihadi arena...The slow action in the operations here nowadays is due to the lack of funds, and many Mujahideen could not carry out jihad because there's not enough money." Senior Treasury official David Cohen said.

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37 Al Qaeda confirmed that its top leader in Afghanistan and chief financial official Mostafa Abul Yazid was killed in a US airstrike in Pakistan in May 2010 http://www.weeklystandard.com/blogs/death-mustafa-abu-yazid

al Qaeda had made several appeals for funds in 2009. He said “We assess that al-Qaeda is in its weakest financial condition in several years and that, as a result, its influence is waning” 39. However, he added that if the organization had multiple donors who were "ready, willing and able to contribute", the situation could be quickly changed. Al Qaeda has been routinely telling followers that donating is a perfectly acceptable alternative to fighting 40. Despite being seriously wounded and forced to decentralize, al Qaeda still poses a threat as it is a flexible, adaptive and patient organization that can draw on global support around the world.

6. Al Qaeda’s portfolio and Sources of “revenues”

The size of al Qaeda’s portfolio as well as its annual budget is unknown. Estimates vary widely. For example, in 2002, the United Nations Monitoring Group referred to an estimated figure of donations from individual donors of between $16 million and $50 million. However, there was little information to back up these numbers 41. In the 9/11 Commission Report, it is said that the CIA estimated that prior to September 11, al Qaeda’s annual budget was about $30 million per year. For many years, it was thought that Osama bin Laden financed al Qaeda’s expenses by his personal wealth. He allegedly inherited a fortune with estimates ranging from $25-$30 million to $250-$300 million. However, as noted before it is a myth. As stated in a Task Force Report on Terrorist Financing, “the most important source of al Qaeda’s money is its continuous fund-raising efforts”. The key sources of al Qaeda’s funding can be divided into three groups:

A. Donations (through financial facilitators or charities)
B. Legitimate businesses
C. Criminal proceeds.

A: Donations

Direct contributions from wealthy individuals and funds raised through charities and financial facilitators are primary sources of funding for al Qaeda.

One of the main pillars of Islam is a religious duty for all Muslims to give annually 2.5% of their income to the charitable causes known as zakat. “In many communities, the zakat is often provided in cash to prominent, trusted community leaders or institutions, who then commingle and disperse donated moneys to persons and charities they determine to be worthy,” 42. These practices are unregulated, unaudited, and generally undocumented and therefore easy to be abused by groups like al Qaeda. In addition to obligatory zakat there are voluntary donations – infaq and shadaqah. Many Muslim governments do not collect taxes, and therefore devout Muslims, through their payment of zakat and sadaqah, contribute to social welfare 43. Some governments, for instance in Indonesia, made zakat tax deductible to stimulate charitable donations.

Al Qaeda continues to raise funds through direct donations from wealthy supporters and through charities. Some of the donors know the jihadi purposes that their donations will serve. In other cases, donors believe that their money will help to provide humanitarian assistance, education, and medical services to those who are in need. In the case against the Global Relief Foundation,

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39 Al-Qaeda ‘faces funding crisis’ http://news.bbc.co.uk/2/hi/8303978.stm
which was established in Bridgewater, Illinois in 1992, U.S. agents obtained donors' checks where some donors had actually written pro-jihad statements on their memo lines. Also, not all charities knowingly supported al Qaeda. Most of them were not aware that some of their officials were working for al Qaeda and diverting thousands of dollars to fund terrorist activities and to build al Qaeda’s global network, which supported jihadist fighters in Chechnya, the Balkans, Kashmir, Afghanistan, Central Asia, and Southeast Asia.

Most of the charity networks were developed in the late 1980s and early 1990s by Azzam and bin Laden’s personal contacts with Saudi charities and wealthy donors. These charity networks were built to support the fight against Soviet troops in Afghanistan. The United States, the United Kingdom, Saudi Arabia, Pakistan and many Muslim countries encouraged Islamist leaders to establish these networks. Donations were used to assist mujahidin fighters, to build training camps, to cover the travel expenses of young Muslims interested in joining the war against Soviets, and to support the families of the fighters. These charities established a strong presence in the Middle East, especially in the Persian Gulf region, and in Western countries, including the United States.

It is known that al Qaeda relies on financial facilitators who play a big role in raising, moving and storing the money for al Qaeda. They raised money from witting and unwitting donors, primarily in the Gulf countries, and particularly in Saudi Arabia but also from countries around the world.

These financial facilitators also enabled al Qaeda to develop a substantial financial network in Southeast Asia, as well as funding sources in Europe, Africa and Asia.

Wealthy donors are an integral part of al Qaeda’s financial network. A few wealthy donors can sponsor much terror. “Mustafa Ahmed al-Hasnawi, the Saudi national and bin Laden money man, sent the September 11 hijackers operational funds and received at least $15,000 in unspent funds before leaving the UAE for Pakistan on September 11.”

Evidence seized in March 2002 from the Bosnian offices of the Benevolence International Foundation, an Illinois-based Muslim charity, included handwritten documents scanned into computer formats with a file titled "Osama's history" that contained "a handwritten draft list of people referred to within al Qaeda as the 'Golden Chain', wealthy donors to mujahedeen efforts." “The list contained 20 names, and after each name a parenthetical indicating the person who received the money from the specified donor… the list suggested at least seven of the donors gave directly to bin Laden, and six of the others were listed as giving to the founder of a Muslim charity, the court document said. Some individual donors surely knew the ultimate destination of their donations. …These financial facilitators also appeared to rely heavily on certain imams at mosques who diverted zakat donations to the facilitators and encouraged support of radical causes.”

Over the past several years, the United States and allied governments have made it a top priority to target financial facilitators. Several of these financial facilitators have been captured or identified. However, some continue to remain anonymous. Some have been put on designated lists of the U.S. Treasury and the United Nations al Qaeda and Taliban Sanctions Committee. When

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45 Tolga Koker and Carlos L. Yordán “Microfinancing Terrorism: A Study in al Qaeda Financing Strategy”
46 Ibid
47 Matthew A. Levitt Hearing on “The Role of Charities and NGOs in the Financing of Terrorist Activities,” Subcommittee on International Trade and Finance Available at http://banking.senate.gov/02_08frc/080102/levitt.htm
48 Al Qaeda Financing Documents Turn Up in Bosnia Raid February 19, 2003 Available at http://www.foxnews.com/story/0,2933,78937,00.html
experienced financial facilitators such as Mostafa Abul Yazid are arrested or killed, al Qaeda is forced to turn over their duties to increasingly junior and untested members. These new leaders often do not know and are not trusted by potential donors. They also lack a deep understanding of the most effective ways to move money. Based on the above, we can conclude that al Qaeda faces financial troubles. But the situation can quickly change, as long as there is a significant number of people who wish to give money to groups such as al Qaeda.

Charities are a fundamental part in al Qaeda’s financial structure. Charities are based on public trust, they have access to a continuous source of money and most of them have branches around the world (which is useful for transferring funds). Also most charities collect funds informally, and therefore it is difficult to monitor their activities. These characteristics make charities attractive and vulnerable to misuse by terrorist groups.

A number of Islamic charities and related nonprofit organizations are used by terrorist groups. A National Commission report suggested two forms of involvement. In some cases, al Qaeda infiltrated foreign branch offices of large, internationally recognized charities. And because of the lack of oversight and the charities’ own ineffective internal controls, it was easy for al Qaeda operatives to divert money from charitable uses. In other cases, entire charities were used as a means of fraud for terrorist funding. In those cases, al Qaeda operatives had control over the entire organization, including access to bank accounts. These corrupt charities, such as the Wafa Charitable Foundation, are now out of business.

Saudi charities play a central role in terrorist financing. Saudi Arabia has been criticized for turning a blind eye on terrorist financing. Since the September 11 attacks, Saudi Arabia issued numerous decrees to tighten control over the financial system, set up a joint task force with the United States to investigate terrorist financing, closed down charities suspected of terrorist links, banned cash collections at mosques, centralized control over charitable organizations, and closed unlicensed money exchanges. Since 2002 the United States and Saudi Arabian governments have jointly designated eleven branches of the Al Haramain Islamic Foundation, a charity with links to the royal family. These branches have provided financial, material and logistical support to the al Qaeda network and other terrorist organizations. U.S. investigators linked a former Al Haramain employee to the 1998 U.S. embassy bombings in Tanzania. Another key Saudi charity financing al Qaeda was the al WAFA Humanitarian Organization which was a militant supporter of the Taliban. Documents found in WAFA’s offices in Afghanistan revealed that the charity was involved in assassination plots against U.S. citizens as well as the distribution of “how to” manuals on chemical and biological warfare. U.S. officials have described WAFA as a key component of bin Laden’s organization. One official was quoted as saying that al Wafa and other groups listed "do a small amount of legitimate humanitarian work and raise a lot of money for equipment and weapons."
The International Islamic Relief Organization (IIRO) , which is part of Muslim World League, was established in 1978 and has branch offices in over 20 countries in Africa, Europe, Asia, and the Middle East. Abdul Al Hamid Sulaiman Al-Mujil, the Executive Director of the IIRO branch office in Saudi Arabia, has been called the “million dollar man” for providing funds directly to al Qaeda and other Islamic militant groups such as Abu

54 Ibid.
55 Department of the Treasury Additional Background Information on Charities Designated Under Executive Order 13224 http://www.ustreas.gov/offices/enforcement/key-issues/protecting/charities_execorder_13224-p.shtml
Sayyaf Group and Jemaah Islamiyah. The Philippine IIRO branch has been publicly accused of funding al Qaeda since the mid-1990s, due to the activities of Mohammed Jamal Khalifa, bin Laden’s brother-in-law, who headed that branch when he funded the Bojinka plot in the early 1990s. The Philippines and Indonesian branches of the IIRO were designated as a financier of terrorism by the U.S. and U.N. in 2006. Al-Mujil was designated as well. The CIA reported funds raised through the IIRO were used to support at least six al Qaeda training camps in Afghanistan prior to 9/11. Also, the IIRO was linked directly to groups responsible for the 1998 bombings of the American Embassies in Dar es Salaam and Nairobi.

The Saudi High Commission for Aid to Bosnia was founded in 1993 by Prince Salman bin Abdul Aziz and supported by King Fahd. During NATO raids, among the items found at the Saudi charity were before-and-after photographs of the World Trade Center, U.S. embassies in Kenya and Tanzania, and the USS Cole; maps of government buildings in Washington; materials for forging U.S. State Department badges; files on the use of crop duster aircraft; and anti-Semitic and anti-American material geared toward children.

During the 2001 trial of four men convicted of involvement in the 1998 embassy attacks, several companies and charities were identified as fronts to aid the attackers, including Mercy International Relief Agency. L’Houssaine Kherchtou, a man found guilty of the 1998 bombings of the U.S. embassies in Nairobi and Tanzania, testified that “people of al Qaeda were dealing with the Mercy International” and a number of employees there were actually al Qaeda operatives. Prosecutors presented documents that cited telephone records showing that Osama bin Laden’s satellite phone was in contact with the mobile phone of Mercy director Ahmad Sheik Adam. Also, Wadih el Hage, a bin Laden lieutenant, testified that he kept his files including false documents and passports at the Mercy International office in Kenya. In his Rolodex were found the business cards of two Mercy officers in Kenya and one in the United States. In addition, Mercy International receipts dated July 24, 1998, make mention of “getting the weapons from Somalia.”

One of the first organizations to be named as a financial facilitator of terrorists and to have its assets frozen was the Al Rashid Trust, an organization that had been raising funds for the Taliban since 1999. The Al Rashid Trust is a group that funded al Qaeda and the Taliban and is also closely linked to the al Qaeda-associated Jaish Mohammed terrorist group. Daniel Pearl’s body, a Wall Street Journal reporter kidnapped and beheaded in 2002, was found in property owned by local businessman Saud Memon, a jihadi with ties to al-Rashid Trust. The Global Jihad Fund, a British website associated with bin Laden, was used by Al Rashid and other fronts and groups to publish bank account information and solicit support to facilitate the growth of various jihad movements around the world by supplying them with funds to purchase their weapons.

56Department of the Treasury Additional Background Information on Charities Designated Under Executive Order 13224 http://www.ustreas.gov/offices/enforcement/key-issues/protecting/charities_execorder_13224-i.shtml#i
57 Al Qaeda Finances and Funding to Affiliated Groups Strategic Insights, Volume IV, Issue 1 (January 2005) by Victor Comras Available at http://www.apml.org/frameworks/docs/7/Al%20Qaeda%20Financing_%20Victor%20Comras_Jan05.pdf
58 Matthew A. Levitt Hearing on "The Role of Charities and NGOs in the Financing of Terrorist Activities." Subcommittee on International Trade and Finance Available at http://banking.senate.gov/02_08hr0/080102/levitt.htm
60 Operation Support-System Shutdown by Matthew Epstein and Ben Schmidt National Review Online September 4, 2003 Available at http://www.investigativeproject.org/170/operation-support-system-shutdown
61 Department of the Treasury Additional Background Information on Charities Designated Under Executive Order 13224 http://www.ustreas.gov/offices/enforcement/key-issues/protecting/charities_execorder_13224-a.shtml#a
Two U.S.-based charities, the Global Relief Foundation (GRF) and the Benevolence International Foundation (BIF), were providing financial support to al Qaeda and international terrorism. GRF was incorporated in Bridgeview, Illinois, in 1992. According to the U.S. government, GRF’s founders had previously been affiliated with the MAK cofounded by Azzam and bin Laden in the 1980s to recruit and support mujahidin to fight against the Soviets in Afghanistan. GRF was a nongovernmental organization that provided humanitarian aid to Muslims around the world, especially in regions such as Bosnia, Kashmir, Afghanistan, Lebanon, and Chechnya. Global Relief raised more than $5 million annually. In 2001 the Chicago agents wrote that “GRF is a highly organized fundraising machine, which raises millions of dollars annually”. The executive director “has been and continues to be a supporter of worldwide Islamic extremist activity” and “has past and present links and associations with a wide variety of international Muslim extremists,” including al Qaeda and bin Laden. BIF was incorporated in Illinois in 1992 and was a nonprofit organization whose purpose was to provide humanitarian relief support throughout the world. BIF’s accounts were frozen pending investigation in December 2001, and the charity was designated by the United States and the United Nations in 2002. BIF operated around the world and had offices in Bosnia, Chechnya, Pakistan, China, Ingushetia, Russia, and other nations. BIF’s Chief Executive Officer and a member of the Board of Directors, Enaam Arnaout, has been convicted in the United States for operating BIF as a racketeering enterprise. Evidence seized by Bosnian criminal investigators during a raid of BIF’s office in Bosnia directly documented BIF’s relationship with Bin Laden that dated to the origins of al Qaeda. Evidence included many documents such as the minutes of al Qaeda meetings, the al Qaeda oath, al Qaeda organizational charts, and the “Golden Chain” list of wealthy donors to the Afghan mujahideen, as well as letters between Arnaout and Bin Ladin. Arnaout denied his personal relationship with bin Laden, however, evidence proved contrary. In court Arnaout admitted that while BIF received donations for the humanitarian purpose, it concealed “from donors, potential donors, and federal and state governments in the United States that a material portion of the donations received by BIF based on BIF’s misleading representations was being used to support fighters overseas”. It was determined that BIF diverted $315,652 from humanitarian relief to support fighters in Chechnya and Bosnia-Herzegovina.

These are but a few of the charities that had ties to al Qaeda. Many charities linked to terrorist financing have been designated and shut down. Many charities have seen their donations diminish and their activities come under scrutiny. However, there are many smaller organizations that operate throughout the Middle East and around the world. Their transactions are too small to be detected as suspicious movements by the international financial system. Also, charities closed in one country are often reopened under a different name in another country. For instance, al Haramain, after being designated in 2002 as al Qaeda’s front in Bosnia and Sudan, opened an Islamist school in Jakarta in 2003. It also reopened in Bosnia twice under a different name. A FATF admitted that charities can be relocated as quickly as money can be wired from one place to another.

B: Legitimate Business

Terrorist groups use proceeds from legitimate businesses as a source of funds for their activities. This method of fundraising is particularly difficult to detect and prevent because they interact primarily with the legitimate economy and often do not have to engage in illegal money
laundering. A wide array of businesses worldwide from fishing companies, to chicken farms, to banks, to honey production has been connected to terrorism.

Legitimate businesses supporting terrorist groups often exist in the sectors which do not require formal qualifications and where start-up capital is not substantial. For example, one company in Europe run by cell members provided home repairs involving masonry, plumbing, and electrical wire hired mujahidin arriving from areas of conflict, such as Bosnia. Another example enterprise operated by cell members purchased old and broken cars in one European country and after repairing resold them in the country of cell location.

In 2001, three Yemen-based firms involved in the honey industry were placed on a list of individuals and groups allegedly linked to terrorist activities. Yemen honey is considered among the best and most expensive in the world. The honey shops often sell other Yemeni specialties such as perfume, incense and spices. The owner of two of these enterprises (Al Nur Honey Press Shops and Al Hamati Sweets Bakeries) was one of the first Arabs who fought in Afghanistan and Bosnia; he also was detained in Saudi Arabia in 1998 "for planning terrorist activities," and subsequently deported from that country in 1999 following his release from prison. Besides dealing in honey, the third Yemeni company on the American government's list known as al Shifa Honey Press for Industry and Commerce, was also reportedly involved in the sale of vegetable oil and perfume. Allegedly, honey stores provided legitimate revenue for al Qaeda, as well as a convenient method of shipping contraband such as weapons and money within honey shipments. However, two of these enterprises, Al Nur Honey Press Shops and Al Shifa Honey Press for Industry and Commerce were de-listed by the UN on July 10, 2010.

Another example of al Qaeda front companies is Maram, a travel agency and import-export business set up in Istanbul in 1996. At that time al Qaeda was expanding its financial operations from Afghanistan and Sudan into Europe. It was suspected of providing money and other assistance to al Qaeda operatives traveling between Europe and Afghanistan. The company literally vanished when one of its directors, Mamdouh Mahmud Salim an alleged cofounder of al Qaeda, was arrested on a trip to Germany and extradited to New York on terrorism charges in 1998. In the mid 1990’s, Istanbul was a frequent transit point for al Qaeda operatives traveling between Afghanistan, Sudan and Europe. The German police said one suspected al Qaeda recruiter, Muhammad Heidar Zammar, passed through the Istanbul 40 times traveling between Europe and Afghanistan.

The senior American official in the region said that Maram was suspected of making travel arrangements for al Qaeda operatives and that there were strong suspicions that Salim was trying to buy components for nuclear weapons. According to accountant who handled Maram's books, the company had no real business transactions, but Salim had traveled extensively in Russia, Romania and Bulgaria, countries where apparently nuclear material is sometimes available on the black market.

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68 Testimony of Dennis M. Lormel, Chief, Financial Crimes Section, FBI Before the House Committee on Financial Services, Subcommittee on Oversight and Investigations February 12, 2002 Financing Patterns Associated with Al Qaeda and Global Terrorist Networks Available at http://www.fbi.gov/congress/congress02/lormel021202.htm
72 Ibid.
Terrorists also make use of the shell companies, shell banks, and offshore trusts to hide their assets and to protect the identity of individuals, businesses, or other entities they have used to raise money for al Qaeda. Wadi al Aqiq, a holding company started by Osama bin Laden during the period he was based in Sudan, was one of the shell corporations. Other companies in Sudan included the Ladin International Company, an import-export concern; Taba Investment, a currency trading firm; Hijra Construction, which built bridges and roads; and the Themar al-Mubaraka Company, which grew sesame, peanuts and white corn for the group on a farm near Ed Damazin, Sudan. The 9/11 Commission reported these businesses were closed down by the Sudanese government when bin Laden left Sudan in 1998.

A number of front companies were established in Southeast Asia by al Qaeda’s operatives. Green Laboratory Medicine was established in Malaysia in 1993. Its director, Yazid Sufat, who studied bio-chemistry at California State University, was sent to Pakistan for religious training and recruited by al Qaeda. In 2001 he went to Afghanistan to be trained by al Qaeda and was arrested on his return to Malaysia. His firm was instructed to purchase 21 tons of ammonium nitrate to be used in terrorist attacks in Singapore. A trading company, Konsojaya, established in 1994 imported honey from Sudan and Yemen and exported palm oil to Afghanistan. The company was used to hide terrorist financial transactions and played an important role in Ramzi Yozef and Khalid Sheikh Mohammed’s plot, Bojinka, as a front for moving funds and purchasing ingredients for bomb-making. Another company established by Ramzi Yozef and Wali Khan Amin Shah, Bermuda Trading Company, was used as a cover to import chemicals for bomb-making. The alleged 20th hijacker, Zacarias Moussaoui, was hired by Infocus Technology as a marketing consultant and was supposed to be paid $35,000 first and then $2,000 every month to pay for his flight training in the U.S.

In the Philippines, numerous businesses, corporations and charitable institutions were established by Jamal Khalifa, the brother-in-law of Osama bin Laden. These reportedly included the Khalifa Trading Industries, ET Dizon Travel Pyramid Trading, Manpower Services and Daw al-Iman al-Shafee Inc.

Al Qaeda operatives use legitimate businesses and employment to support themselves and their activities. It offers them cover and livelihood.

C: Criminal proceeds

Post 9/11 financial troubles have pressed al Qaeda to find financial and logistical support from non-traditional resources. Terrorist groups became involved in the criminal activity. The nexus between criminals and international terrorists is growing. This is the result of mutual opportunities for financial benefit. Terrorist and criminal groups share similar characteristics and use similar tactics and techniques. These groups overlap in three primary ways: through using the same tactics and methods; through transformation from one type of group to the other over time; and through short-term or long-term transaction-based service-for-hire activities between groups.
The growing terrorist-criminal nexus could increase U.S. vulnerability to attack by terrorist
groups with enhanced criminal capabilities and financial resources.

Terrorist use of criminal activities for financing their activities ranges from petty crime and low-
level fraud to involvement in organized crime. For instance, the cell that carried out the Bali
attack financed itself in part through the robbery of jewelry shops. Imam Samudra, one of the
leaders of the Bali plot, was also involved in credit card fraud.\(^\text{10}\)

There is a lot of evidence that many al Qaeda cells are actively using credit card fraud. "Terror
groups and criminal organizations use credit card cloning and skimming to fund themselves," says
Loretta Napoleoni, author of "Modern Jihad: Tracing the Dollars Behind the Terror Networks." "Cloning is done primarily via the Internet. Skimming requires use of the actual card, so it is done
in restaurants and stores," she says. "It is a very popular and easy technique."\(^\text{81}\) Credit card details
are obtained from shops and restaurants or bought on the black market and then bogus cards are
produced which are used to steal funds from accounts. In Europe al Qaeda’s financial network
relies heavily on credit card fraud. An Algerian cell discovered in Britain in 1997 raised nearly
$200,000 in six months.\(^\text{82}\) There even were special camps established in Afghanistan to provide
training in financial fraud including credit card counterfeiting.\(^\text{83}\) In 2008 in the UK, detectives
were investigating a sophisticated credit card fraud that could have been linked to extremists in
Pakistan. Small devices inserted into the stores’ “chip and Pin” credit card readers were reading
and storing credit card information. Then the information was transmitted by wireless technology
to Lahore, Pakistan. The stolen information was used to clone the cards and use them to steal
money from credit and current accounts and to pay for items such as airline tickets on the
internet.\(^\text{84}\)

Terrorist groups like al Qaeda and Hezbollah are making money in trafficking counterfeit
consumer goods like fake Nike sneakers, Sony stereo equipment, Calvin Klein jeans and designer
dresses - products that can be bought and sold on any street in America or through the internet. In
2001 the European Union reported the seizure of 95 million items of counterfeit or pirated goods,
representing nearly $2 billion. The FBI estimates counterfeiting has caused businesses in the
United States to lose $200 - $250 billion per year.\(^\text{85}\) Returns generated by sale of counterfeit goods
and losses for legitimate businesses are significant.

Due to the squeeze in their financing, terror groups are increasingly turning to entrepreneurial
endeavors, whether it's counterfeiting or establishing legitimate businesses. John Newton, an
Interpol officer who specializes in intellectual property crime, said: “North African radical
fundamentalist groups in Europe, al Qaeda and Hezbollah all derive income from counterfeiting. This crime has the potential to become the preferred source of funding for terrorists."\(^\text{86}\) In 2002
fake perfumes and other counterfeit goods from Dubai that allegedly were sent by al Qaeda
members were intercepted in Britain. In France, members of the Salafist Group for Preaching and
Combat, which has links to al Qaeda, were arrested for involvement in counterfeiting of clothes.\(^\text{87}\)

\(^{10}\) Funding terrorism in Southeast Asia: The Financial network of Al- Qaeda and Jemaah Islamiya. By Zachary
Abuza

\(^{81}\) The credit card-terrorism connection: How terrorists use cards for everyday needs and to fund operations by

\(^{82}\) Rohan Gunaratna, “Inside al Qaeda: Global Network of Terror”

\(^{83}\) Ibid.

\(^{84}\) Fraudsters' bugs transmit credit card details to Pakistan by David Leppard October 12, 2008 Sunday Times
Available at [http://www.timesonline.co.uk/tol/news/uk/article4926400.ece](http://www.timesonline.co.uk/tol/news/uk/article4926400.ece)

\(^{85}\) Officials: Counterfeit Goods Fund Terrorism Wednesday, July 16, 2003 Available at
[http://www.foxnews.com/story/0,2933,92094,00.html](http://www.foxnews.com/story/0,2933,92094,00.html)

\(^{86}\) Designer fakes 'are funding Al-Qaeda' by Jon Ungood-Thomas March 20, 2005 Available at
[http://www.timesonline.co.uk/tol/news/uk/article432410.ece](http://www.timesonline.co.uk/tol/news/uk/article432410.ece)

\(^{87}\) Ibid.
Cells in Europe are becoming very creative in their attempts to raise money. In Germany, three men were trying to raise $6.3 million for al Qaeda by faking a death and planning to collect on nine life insurance policies. In Spain and Switzerland, cells were stealing cars, computers, home furnishings and then reselling them on the black market. One of the 2005 London suicide bombers defaulted on a $20,000 loan from HSBC Bank and another bomber secured a $14,000 line of credit from a building supply company.

Cigarette smuggling is a highly profitable way to earn money for terrorists. The scheme is very simple but difficult to stop. The smugglers buy cigarettes in states where the tax is low, such as North Carolina and then travel to sell cigarettes at a discount without paying the higher cigarette taxes in states such as New York, Pennsylvania and New Jersey. The profits are enormous and the penalties are low.

Traditionally, al Qaeda’s core leadership has mostly avoided organized crime involvement. This can be explained by the leadership’s strict ideological beliefs against certain criminal activities that violate Islam. The 9/11 Commission concluded that there is no evidence that Osama bin Laden made any of his money through drug trafficking. The organization is in its weakest state, an unlikely scenario, experts assess, if al Qaeda were more directly involved in profiting from the heroin trade in Afghanistan. However, it does not mean that while the leadership does not appear to be involved with criminal activities, al Qaeda’s affiliates do the same. For instance, for al Qaeda in the Islamic Maghreb (AQIM), abducting civilians and demanding ransoms is a new way to generate money. In 2007, it murdered four French tourists, causing the cancellation of the Paris-Dakar motor rally. In 2009, it kidnapped a group of European tourists, holding them in Mali for several months before most were released in return for ransoms believed to reach $5 million each. But it executed a British citizen, Edwin Dyer, after Britain refused its demands to release the radical Islamist Sheikk Abu Qatada from custody.

Another area of big concern is narcoterrorism. More often locally organized terrorist cells become involved in criminal activities such as drug trafficking. The cell that was responsible for the 2004 Madrid bombings used criminal connections to fund a terrorist operation without any outside financial assistance. A few members were drug dealers and traffickers before they joined al Qaeda. Jamal Ahmidan, a major 1990’s hashish and Ecstasy dealer in western Europe was one of the masterminds behind the Madrid bombings plot. Ahmidan exchanged 66 pounds of hashish for 440 pounds of dynamite with Jose Emilio Suarez Trashorras, a former miner from northern Spain.

The U.S. Drug Enforcement Administration (DEA) reports that the number of designated foreign terrorist organizations (FTOs) involved in the global drug trade has jumped from 14 groups in 2003 to 18 in 2008.

In December 2009, three members of AQIM were arrested in Ghana after a sting operation. The three men believed they were setting up a deal with representatives of Colombia's Marxist FARC guerrillas to smuggle up to 1,000 kilograms of cocaine. They guaranteed shipment of the drugs

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88 Al-Qaeda Masters Terrorism On the Cheap By Craig Whitlock, August 24, 2008 Available at http://www.washingtonpost.com/wp-dyn/content/article/2008/08/23/AR2008082301962.html
89 Ibid.
93 Ibid.
through territory they controlled for the payment of $2,000 per kilogram⁹⁴. These “arrests are further proof of the direct link between dangerous terrorist organizations, including al Qaeda, and international drug trafficking that fuels their violent activities,” said DEA Acting Administrator Michele Leonhart⁹⁵.

While the 9/11 Commission reported that it had “seen no persuasive evidence that al Qaeda funded itself by trading” in diamonds, others like Douglas Farah, an author of “Blood From Stones: The Secret Financial Network of Terror” contend that al Qaeda used African diamonds to convert cash into diamonds in response to a move by the United States in 1998 to freeze al Qaeda assets after attacks on U.S. embassies in Africa. Global Witness Report “For a Few Dollars More: How al Qaeda Moved into a Diamond Trade” argues that al Qaeda used diamonds for several reasons: to raise funds, to hide money targeted by financial sanctions, and to use diamonds as a means of transferring wealth.

7. Methods of transferring and storing funds

Al Qaeda uses various mechanisms to move and store its funds. According to the Financial Action Task Force (FATF) report on Terrorist Financing⁹⁶, there are three main methods by which terrorists move their funds or transfer value. They are:

1) Use of financial system
2) Physical movement of money
3) International trade system

Besides these methods, terrorists abuse alternative remittance systems (ARS), charities and businesses and smuggle precious stones and metals as a cover of moving funds.

Prior to 9/11, al Qaeda relied on the financial system in transferring funds. It used extensively commercial banks, shell banks, front companies, charities and financial service businesses to move money around the world. Al Qaeda used the international banking system from the beginning. Bin Laden as well as other top cadre members and financial facilitators had bank accounts around the world. For years, al Qaeda has been particularly interested in operating in the areas with lax financial regulations and anti money laundering laws and inefficient banking oversight. Over the years regional banking centers in the Middle East have avoided building anti money laundering regimes and oversight of the banking system consistent with international standards. For instance, funds for the attempted assassination of President Mubarak went through National Commercial Bank (NCB), the largest bank in Saudi Arabia. It transferred millions of dollars to al Qaeda’s accounts via corresponding banks in London and New York⁹⁷. The NCB chairman Khalid bin Mahfouz denied that his bank was involved in funding an al Qaeda group. He stated that he could not have been aware of every wire transfer moving through the bank, and that if he knew that such transactions were taking place he would not have allowed it. There was no evidence found that Mahfouz was personally involved in any of these transactions. He also was involved with the Bank of Credit and Commerce International (BCCI), another bank from al Qaeda’s infrastructure. BCCI was a major international bank founded in 1972 by Pakistani financier Agha Hasan Abedi. It expanded into 69 countries but lost huge sums of money from its lending operations, foreign currency dealings and deposit accounts. Khalid bin Mahfouz was a principal shareholder and director in the BCCI Group. He was indicted in New York State on the grounds that he had withdrawn sizeable investments in the bank just before its collapse in 1991,

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⁹⁷ Rohan Gunaratna, “Inside al Qaeda. Global Network of terror”
which resulted in a gross misstatement of the true financial picture of the bank. The scheme resulted in larger losses for depositors and others when BCCI’s worldwide Ponzi scheme finally collapsed. Mahfouz denied all allegations but paid a fine of $225 million.

BCCI was involved in fraudulent operations and became a bank of choice for money-launderers, drug cartels, weapons smugglers and terrorist organizations. When BCCI was shut down, investigators found accounts belonging to bin Laden as well as other individual terrorists and criminals. Apparently, the bank was also used to channel money from various donors to mujahidin in Afghanistan.

Al Qaeda copied the financial network from BCCI. Its banking network operates “feeder” and operational accounts to transfer funds from the source to the end user of the funds. Feeder accounts receive funds from various sources and are registered in the names of charities or businesses. The operational accounts are held by al Qaeda’s members who are not publicly known or by reliable sympathizers. Funds from these accounts are used by cells in their operations. In order to hide the true purpose of a transaction, transfers from the feeder accounts to the operational accounts usually take place in several bank accounts.

Al Qaeda abuses the Islamic banking system, a legitimate form of investment and finance that provides banking services to Muslims and abides by sharia, or Islamic law, which prohibits making money on loans and charging of interest. There are five ways in which Islamic banks provide money to their customers: 1) *mudahara*, money provided to an investor and losses and gains are co-shared; 2) *quard al- hasanah*, an interest free loan; 3) *musharaka*, where the lending institution becomes a shareholder; 4) *murabaha*, when a bank buys and sells assets with a mark-up; 5) *ijara*, a leasing agreement, when the bank buys an object and rents it to the customer. There are three types of accounts used by Islamic lending institutions: 1) current deposit accounts with no interest earned; 2) limited *murabaha* deposits where funds can be used by the bank for the investment projects; 3) limited *mudaraba* deposits where bank together with the customer determine the investment project and share the returns. Although, the Islamic banking has been growing rapidly, the regulation and oversight of the banking system is not up to international standards. Many Islamic banks posses a greater degree of autonomy and operate under lax regulatory oversight and controls. Moreover, al Qaeda and other Islamic terrorist groups are more likely to find willing collaborators within the Islamic banking system.

After 9/11 al Qaeda’s financial network has been largely disrupted due to increased regulations in the banking system. As a result, terrorists use mechanisms that enable them to conceal their assets and move them in informal or alternative ways of transferring funds.

Terrorists are attracted by alternative remittance systems (ARS) because they are convenient, reliable, and available 24 hours and they are generally not subject to strict regulatory oversight. Due to rapidity and anonymity of these systems, they are one of the favorable methods of transferring funds used by terrorists. The main feature of ARS is the ability to move funds without physical movement of currency. The most widespread network for informal transfers is *hawala*.

Hawala appeared many centuries before the current financial system was formed. The word “hawala” comes originally from the Arabic language and means transfer or remittance. There are similar systems known in Pakistan (*hundi*), Philippines (*padala*), and Somalia (*sawiliad*).

Hawala is a fast and cost-effective way to transfer funds, particularly for persons who may be outside the reach of the traditional financial sector. Although it is nearly impossible to measure

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99 Rohan Gunaratna, “Inside al Qaeda. Global Network of terror”
100 Ibid.
101 Stefan M. Aubrey “The New Dimension of the International Terrorism”
the total value transferred through such systems, it is estimated that the number is tens of billions of dollars. For instance, officials in Pakistan estimate that more than $7 billion flow into the nation through hawala channels each year.

Hawala works in a similar way as Western Union or MoneyGram do. Here is how it works:

First, a person in one country who wishes to send money to a recipient in another country contacts hawaladar and gives him instructions and money. Hawaladar, a hawala operator contacts a counterpart hawaladar in the recipient country via phone, e-mail etc., who in turn distributes funds to the intended recipient. Recipient has to be verified by some kind of code passed to him from the sender. Over time, the accounts between the two hawaladars may become unbalanced and must be settled. The settlement can take various forms, such as reciprocal payments to customers, physical movement of the money, wire transfer or check, invoice manipulation, trade or smuggling precious stones or metals such as gold and diamonds.


There are numerous reports that terrorists used hawala extensively. A Pakistani hawaladar was among the financiers of the 1998 U.S. embassy attacks in Africa. When following the 9/11 attacks, the United States began Operation Enduring Freedom in Afghanistan, the ruling Taliban and al Qaeda’s operatives used hawala to transfer millions of dollars in cash and gold to Pakistan. According to CBS News, investigators determined that 2010 Times Square bomb suspect Faisal Shahzad also used hawala in plotting the attack. Drug traffickers and corrupt

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102 US Department of the Treasury HAWALA & ALTERNATIVE REMITTANCE SYSTEMS Available at http://www.ustreas.gov/offices/enforcement/key-issues/hawala/
104 Available at http://www.gao.gov/new.items/d04163.pdf
105 Loretta Napoleoni "Modern Jihad: Tracing the Dollars Behind the Terror Networks" p.124
106 Douglas Farah Al Qaeda's Road Paved With Gold Available at http://www.library.cornell.edu/colldev/mideast/qdagold.htm
107 Faisal Shahzad used "Hawala" System to Get Money, Sources Say May 13, 2010 Available at http://www.cbsnews.com/8301-31727_162-20004916-10391695.html
officials also use the system for money laundering. Hawala dealers do not care about where the money comes from or what it is being used for. They only concern themselves with the deal.  

Terrorists have been using charities not only as source of financing but also as a method to move funds. Terrorists abuse the fact that financial transactions that effectively transfer funds are regarded as the normal business of certain types of foundations and charities. For example, according to its Internal Revenue Service filings, the Global Relief Foundation (GRF), an Illinois-based charity, sent more than 90 percent of its donations abroad between 1994 and 2000. GRF has been linked to and has provided support and assistance to the al Qaeda network, and other known terrorist groups. Another Illinois-based charity, Benevolence International Foundation, also moved charitable contributions fraudulently solicited from donors in the United States to locations abroad to support terrorist activities.  

Criminal organizations and terrorist groups have been long misusing international trade system to move value for illegal purposes. The Financial Action Task Force (FATF) stated that “the international trade system is clearly subject to a wide range of risks and vulnerabilities that can be exploited by criminal organizations and terrorist financiers.” For example, a European customs service intercepted a shipment of toiletries and cosmetics that originated in Dubai and was exported to a third country. Customs examination of the suspected shipment suggested that the goods were counterfeit and they were largely undervalued. The resultant investigation revealed that the original exporter of the goods was a member of al Qaeda.  

Estimates of the annual dollar amount laundered through trade range into the hundreds of billions.  

Trade-based money laundering methods vary from the most basic to very complex schemes. The most basic schemes of abusing trade system involve fraudulent practices such as: over- and under-invoicing of goods and services, multiple invoicing of goods and services, over- and under-shipments of goods and services, and falsely describing goods and services.  

More complicated schemes besides various fraudulent trade practices can also involve other illegal techniques such as smuggling, corruption, narcotics trafficking, and tax avoidance. These illegal practices can be so complicated and intertwined, that it is extremely difficult for effective law enforcement.  

One of the most basic and oldest methods of misuse of international trade system is over- and under-invoicing of goods and services by importers and exporters. The exporter transfers value to the importer by under-invoicing goods, because the payment for good or service will be lower than the value of the good or service that importer receives and sells in the open market. Alternatively, by using this over-invoicing scheme the exporter is able to receive value from the importer, as the payment will be higher than value transferred to the importer. Below is the case study illustrating over- and under-invoicing schemes.

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108 A Banking System Built for Terrorism by Meenakshi Ganguly Friday, Oct. 05, 2001 Available at http://www.time.com/time/world/article/0,8599,178227,00.html
110 Ibid.
114 FATF “Trade Based Money Laundering” June, 2006
In this example, a terrorist or criminal wants to launder money to a foreign country. A foreign exporter ships 1 million widgets worth $2 each, but invoices a domestic importer for 1 million widgets at a price of $1. Therefore, the exporter launders $1,000,000 abroad, as the importer pays $1,000,000 and receives the shipment worth $2,000,000 which is then sold in the domestic market.

Alternatively, when a terrorist or criminal needs to launder money into the country, the domestic exporter ships 1 million widgets worth $2, but the invoice states a price of $3 per widget. In this case, the exporting company receives $1,000,000 extra payment, as it receives a payment of $3,000,000 and ships goods worth only $2,000,000.

The use of the over- and under invoicing techniques is only possible when there is an agreement between the exporter and importer, which often are controlled by the same company.

John Zdanowicz, a professor of finance at Florida International University, developed a statistical program called International Price Profiling System (IPPS) to track money laundering through the international trade. He analyzed U.S. government trade figures, calculated average prices for merchandise and identified abnormally priced products. The IPPS analysis evaluates an international trade price and produces a "Risk Index" that ranges between "-4" and "+4". A negative figure indicates the potential of money being moved out of the United States to a foreign country. A positive number reflects the potential of money being moved into the United States from a foreign country. The magnitude of the index reflects the probability or likelihood that a price is over-valued or under-valued.

In his article “Trade Based Money Laundering and Terrorist Financing”, Zdanowicz details how fraudulent invoicing is used to move money across the borders. By comparing invoice prices with average world prices, Zdanowicz estimated that $192 billion was moved out of the U.S. in 2005 via undervalued and overvalued imports, and $189 billion in 2006.

As government control and oversight of banks, charities and other financial service sector businesses became stricter, terrorist groups found it more challenging to raise and move funds. As a result, terrorists are turning from formal financial systems to the most basic and oldest method of moving funds – the physical movement of bulk cash using cash couriers. According to Stuart

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Levey, undersecretary of Treasury for terrorism and financial intelligence there is "a trend toward bulk-cash smuggling and use of cash couriers".\(^\text{117}\)

Cash smuggling is widespread throughout the Middle East, Southeast Asia and Africa, abetted by weak border controls and non-existent or weak anti money laundering enforcement practices. Unlike in the West, many people carry cash and most transactions are conducted in cash. Therefore, in such cash-based economies with the electronic banking system in an embryonic state, large cash movements can be viewed as normal and do not always raise the suspicion of authorities.

To terrorists the main advantages of this method of moving funds are that there are no traceable paper trails left and no third party such as bank officials suspect the illicit purpose of transfer involved. As the cost of attacks can be relatively cheap, cash moved across the borders for terrorist purposes is in very low levels making it difficult to detect and stop. But it also can be a less efficient method as some cash couriers can get caught and some can get greedy and steal the money. Also, it is more expensive than moving money using wire transfers as it involves arrangement of the travel documents. Travel documents for the couriers are arranged by al Qaeda, and at the airport the courier is met by the contact to whom he has to pass over the package. Once the package is handed over, the operative returns home. In most cases the couriers have no idea what is going on beyond their immediate task.\(^\text{118}\)

International efforts to block illegal cash smuggling have been slow, particularly in those countries where it is a tradition to carry large sums. It is almost impossible to stop cash smuggling as it is impossible to search everyone coming to the country. As one Indonesian official said “you could bring a container of cash into the country without being noticed”\(^\text{119}\). According to Malaysian and Singaporean intelligence reports, the Jemaah Islamiya received about $40,000 in 1997 and $70,000 in 2000. Omar al-Faruq\(^\text{120}\) testified of transferring $200,000 to the Jemaah Islamiya Indonesian cell after 2000\(^\text{121}\).

Cash couriers were used in the Bali bombings, when Wan Min Wan Mat, a leader of the Jemaah Islamiya network in Malaysia, transferred about $15,000 to Mukhlis\(^\text{122}\) using Indonesian laborers working in Malaysia\(^\text{123}\). Khalid Sheikh Mohammed used a Pakistani courier, Majid Khan, to deliver $50,000 to Hambali in Thailand in early 2003\(^\text{124}\). The case of Jamal al Fadl provides another example. In 1993 Jamal al Fadl, a key witness in the 1998 U.S. embassy bombings trials and bin Laden's finance officer during the 1991-96 period when al Qaeda was based in Sudan, told how he was sent from Sudan to Amman in Jordan with money for the Abu Ali group, a militant Islamist group and part of the al Qaeda network in Jordan and the Palestinian territories. He was given $100,000


\(^{118}\) Dissertation: Financing Terror An Analysis and Simulation for Affecting Al Qaeda's Financial Infrastructure by Steve Kiser Pardee RAND Graduate School

\(^{119}\) Funding terrorism in Southeast Asia: The Financial network of Al-Qaeda and Jemaah Islamiya. By Zachary Abuza

\(^{120}\) Omar al-Faruq was a Kuwaiti of Iraqi decent, and a senior al Qaeda member. He was a liaison between al Qaeda and Islamic terrorists in the Far East, particularly Jemaah Islamiya [http://en.wikipedia.org/wiki/Omar_al-Faruq](http://en.wikipedia.org/wiki/Omar_al-Faruq)

\(^{121}\) Funding terrorism in Southeast Asia: The Financial network of Al-Qaeda and Jemaah Islamiya. By Zachary Abuza

\(^{122}\) Mukhlis was an Indonesian who was convicted and executed for his role in the 2002 Bali bombings. He was a senior and influential Jemaah Islamiyah leader with ties to Osama bin Laden. [http://en.wikipedia.org/wiki/Huda_bin_Abdul_Haq](http://en.wikipedia.org/wiki/Huda_bin_Abdul_Haq)

\(^{123}\) Funding terrorism in Southeast Asia: The Financial network of Al-Qaeda and Jemaah Islamiya. By Zachary Abuza

\(^{124}\) Ibid.
in cash in $100 bills which he carried in a suitcase also containing clothes. On arrival to Amman
he was met by his contact in Jordan, Abu Akram, who escorted him through customs. "He talked
with one of the customs people and they didn't check my bag," al-Fadl said during the embassy
bombings trial. Terrorist organizations also move their assets in the form of precious stones and metals such as
diamonds and gold because they are highly valuable, convertible, easy to conceal, and as with
cash smuggling this method also does not leave a paper trail.

While U.S. officials remain divided over whether there is enough evidence to establish a link
between al Qaeda and the diamond trade, officials from the U.N. Special Court for Sierra Leone,
representatives of Global Witness, media and other experts stated that there is evidence that al
Qaeda’s has ties to the West African diamond trade. According to Douglas Farah, a Washington
Post reporter and the author of “Blood from Stones”, al Qaeda was interested in exploiting
 gemstones in West Africa, East Africa and Europe almost since its inception. West Africa is
attractive to terrorist groups like al Qaeda because in countries like Liberia, Sierra Leone and
others in the region governments are weak, corrupt and exercise little control over much of the
national territory. Some states, like Liberia under Charles Taylor, were in fact functioning
criminal enterprises.

Al Qaeda’s diamond purchases in West Africa picked up at the end of 2000 and lasted until just
before 9/11. Al Qaeda operatives were paying a premium over the going rate, because their goal
was to transfer funds into the stones and not to make money. Farah states, that the available
evidence points that al Qaeda purchased some $20 million worth of diamonds during the 14
months prior to 9/11. That large-scale value transfer operation allowed the terrorist group to move
money out of traceable financial structures into untraceable commodities.

Gold presents another opportunity for moving and storing funds. A former senior financial officer
in the Treasury Department’s Financial Crimes Enforcement Network investigating al Qaeda’s
gold transactions, Patrick Jost, noted that: “There can be no doubt that al Qaida has placed a large
share of its assets in gold. This metal is indeed the best means of transferring secret funds.
Jewelers in the Middle East and Indian subcontinent act as virtual bankers and due to its secret
and archaic nature, this trade is particularly difficult to track down and infiltrate.”

Gold is a favorite commodity of groups like al Qaeda used to store and move funds. A large
amount of cash deposited into the bank account can raise red flags and be tracked by automated
systems and monitored by the authorities. Gold can be melted, smelted and broken down into
smaller pieces making it harder to track down the original value. Cash converted into gold does
not leave a record trail and can be placed in a safe box deposit where authorities will unlikely be
looking for it.

Gold is a “near cash” commodity and is used by terrorists not only to store and move funds but
also as a means of payment. Gold is an international commodity and it can be converted into any
currency. While gold’s value can fluctuate over the time, gold is considered a traditional hedge
against inflation. Moreover, any loss will be a small price to pay for the security and secrecy
afforded by converting the hard currency to an untraceable asset.

125  Trail of terrorist dollars that spans the world by John Willman November 29, 2001 Available at
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126 Testimony of Douglas Farah, February 16, 2005 “Terrorist Responses to Improved U.S. Financial
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[122] Funding terrorism in Southeast Asia: The Financial network of Al-Qaeda and Jemaah Islamiya. By Zachary Abuza
PART 2. Information Technologies for Detecting and Disrupting Terrorist Financing

8. Applications of Information Technology

As discussed in Part 1, al Qaeda’s financial network is in many ways unknown and unpredictable. Therefore, we need technologies not only to examine and analyze the currently available information about their network, but also technologies that can reason with incomplete and uncertain information. In this part we will examine some critical information technologies.

Several information technologies are being examined to combat terrorism. Most notable is data mining [1]. We have been developing data mining tools for intrusion detection, fraud detection, and social network analysis as well as to conduct surveillance. Data mining is the process of analyzing vast amounts of data and extracting the nuggets often previously unknown. We have also focused on privacy violations that could arise due to data mining. I feel that in order to model the terrorist behavior, it is important to understand their modus operandi and this was the main reason I signed up for the Terrorism certificate studies at St. Andrews. The challenge is that the terrorist patterns might change and this will be very difficult to model. Therefore, with respect to data mining, we need traditional data mining techniques to study the behavior of terrorists who do not change their tactics and also adaptive real-time data mining to study the behavior of the terrorists who change their tactics. With respect to finance networks, we need to apply the data mining techniques to uncover hidden dependencies. The challenge we have is when the terrorist adapts his/her behavior and the financial efforts based on the reaction of say the U.S. or Israel’s response to terror, then it will be far more complicated to predict how the terrorist will adapt its behavior and fund collection patterns. This is one of the challenges we are facing with groups like al Qaeda. They are decentralized and unpredictable. Therefore, we need solutions that can adapt. In addition we also need solutions to model the behavior of the adversary.

The question is, what is our strategy to combat terrorism? The scenario that is emerging is the following: there are vast amounts of data out there in the form of emails, web sites, twitter pages, Facebook pages, chats and databases. Much of this data is in the form of text, video, images, and audio. Semantic web technologies such as RDF (Resource Description Framework) are being explored to represent this vast amount of unstructured data [2]. We are interested in extracting concepts from this data using data mining techniques, and then linking the concepts into a network (which can be regarded to be a social network). Then the networks are analyzed to extract the nuggets using further data mining techniques. These nuggets are the knowledge that the agencies will use to get a competitive advantage over their competitors and in this the competitors are the adversaries. Such a process has come to be
called knowledge management. In addition, the nuggets extracted from the vast data sources have to be assembled into a data product and shared among the various agencies. Therefore, in the end it is not only extracting the useful nuggets, it is also about sharing the right data at the right time at the right place to form the right product. Essentially, we are forming a supply chain for developing data products to combat terrorism. In summary, in addition to data mining, a number of the technologies are suitable for combating terrorism including semantic web, knowledge management and social networking.

In section 9 we will examine some of the trends we discussed in Part 1 of this report and explore how data mining may be applied to detect terrorist finance activities. In section 10 we will apply technologies such as social networks. Some other technologies such as surveillance will be discussed in section 11.

9. Data Mining

Data mining is being used to analyze large amounts of data and extract patterns and trends. One of the major steps in applying traditional data mining techniques is to have clean and organized data. Therefore, the available financial data has to be organized and mined. Mining techniques may include link analysis to determine the links between the individuals and/or banks in the finance network, association rule mining to extract rules about the finance network, or classification techniques such as decision trees to determine the different classes or groups to individuals who are funding al Qaeda and their attributes.

As stated earlier, the challenge we have is to reasoning under uncertainty and handling incomplete information. Suppose we have information such as “A has funded B” but we do not know where A has received its funding from. In this case, we may need to examine the associations that A has, investigate the financial dealings of A’s associations and make a determination where A has received its funding from and fill in the blanks. Therefore, based on past experiences, data mining techniques may be used to make predictions. Another challenge is to get the results on time. This area has come to be known as real-time data mining. Note that traditional data mining is used for analysis purposes to give directions and guidance to the decision maker. But real-time data mining is intended to give us results in real-time so that perhaps a financial delivery could be stopped before it happens. For example, suppose A is planning to give some funding to B to carry out a major terror operation. It is critical that the funding gets to B by a certain time. If data mining techniques could be used to determine that such an event will be occurring within the timing constraints imposed, then the money transfer could be stopped and as a result, the terror operation could very well be thwarted. A third challenge is the changing patterns and decoys. The financial funding patterns may change. Furthermore, a cover story may be propagated that A gets its funds from B while in reality it gets its funding from C. Such cover stories have to be taken into consideration when carrying out the analysis. One solution is to use data provenance techniques to determine how much value we can place in the source of the information. It is also important to detect the financial transaction patterns of the adversary before the patterns change. We will discuss some aspects of adversarial behavior modeling in section 10.

In summary, while traditional data mining techniques are still useful, we need to develop new kinds of data mining techniques to reason under uncertainty, deal with incomplete information, handle timing constraints and model cover stories. One good starting point for work in this area is FinCEN. As stated in [3], “the Financial Crimes Enforcement Network (or FinCEN) is a bureau of the United States Department of the Treasury that collects and analyzes information about financial transactions in order to combat money laundering, terrorist financiers, and other financial crimes.” FinCEN, created in 1990, supports people working in counter-terrorism and law enforcement by enabling information sharing and analysis of financial transactions. Starting with a network such as FinCEN, we could extend it to include unusual situations, changing patterns and reasoning under uncertainty.

10. Social Networks
Social networks are becoming one of the most popular tools for users to share information and carry out collaboration. Social networking sites such as Facebook are exploding with several hundred millions of users. Analyzing these networks can give an analyst useful nuggets for many applications.

Social networks can be applied for counter-terrorism in two ways. One is that the terrorists are also forming networks and are also part of on-line social networks. By mining these networks one can perhaps uncover hidden information and dependencies as well as behavior patterns of terrorists. Second, social networks are also networks. Therefore, techniques for modeling and analyzing social networks can be used to model and analyze financial networks. Financial networks will show relationships between individuals and their financial transactions. The analysis techniques can be used to extract hidden information in financial networks. For example, FinCEN is a network. Techniques for analyzing social networks may be applied for FinCEN. In their article [4], Lei Tang et al examine how social network analysis can be used to detect financial crimes. One of the challenges is building the financial network using social network building techniques. Valdis Krebs’ Initial Mapping of the 9/11 Hijackers’ Network was given in [5]. Two suspicious people are used as a starting point and then the network is expanded. Similarly, one needs to model the financial network of the terrorist using known starting points. As the network is built, techniques such as link analysis may be applied to uncover hidden dependencies. In addition, missing links have to be filled. Various probabilistic and statistical models are being applied. Game theory strategies are also being used for modeling the behavior of adversaries.

In their paper on adversarial modeling [6], Kantarcioglu et al state that for many applications, the adversary and the data miner (or the social network analyst) is playing a game. The adversary modifies its strategy to avoid being detected by the current classifier; the data miner then updates its classifier based on the new threats. They then investigate “the possibility of equilibrium in this seemingly never ending game, where neither party has an incentive to change.” They further state that “modifying the classifier causes too many false positives with too little increase in true positives; changes by the adversary decrease the utility of the false negative items that are not detected.” Subsequently they develop a game theoretic framework where equilibrium behavior of adversarial classification applications can be analyzed, and provide solutions for finding an equilibrium point. They state that “a classifier’s equilibrium performance indicates its eventual success or failure. The data miner could then select attributes based on their equilibrium performance, and construct an effective classifier.” This approach needs to be investigated for a financial network. In this case the adversary is trying to hide the financial transactions while the network analyzer or data miner is trying his/her best to find the pattern.

11. Surveillance and Related Technologies

In sections 9 and 10 we discussed two major technologies for analyzing the financial data of terrorists. They are data mining and social networks. In this section we discuss several other technologies.

Surveillance: A key technology is surveillance. This not only includes human surveillance but also information surveillance. The analyst has to keep track of when and where the financial information is created and transferred. This information has to be monitored throughout its lifecycle. Information may be fused. Using techniques such as data mining and social networks, the information is analyzed. All of these processes come under surveillance.

Visualization: A Visualization tool for visualizing the data (which includes the finance network data) is critical so that the analyst can have a visual perspective. In addition, the visualization tools need to reason with the data and deduce and visualize new data.

Information Sharing: Technologies for information sharing are vital for detecting unusual financial transactions. Different organizations have to share data about the financial information of terror networks. Systems such as FinCEN are a starting point. Such systems have to be adapted to include techniques for adversarial learning and reasoning under uncertainty.

Supply Chain Management: Supply chain management (SCM) is the management of a network of interconnected businesses involved in the ultimate provision of product and service packages required by end customers. Supply chain management spans all movement and storage of raw materials, work-
in-process inventory, and finished goods from point of origin to point of consumption [7]. Now, this definition of SCM can be adjusted reasonably well to a Data Supply Chain environment. We have defined the Data Supply Chain management (DSCM) to be the management of a network of interconnected data centers involved in the ultimate provision of a Data Product (or package) required by end customers [8]. For our application of interest, the end customers are counter-terrorism analysts. Information about the financial transactions of terrorists is arriving continuously from different sources. The challenge is to select the right information at the right time to produce the right product for the analyst.

REFERENCES FOR PART 2


END OF PART 2

12. SUMMARY AND DIRECTIONS

This report has described the financial strategies of al Qaeda. In particular, the structure of al Qaeda, its sources of funding and the movement of funds were discussed. Then we discussed applying various information technologies to combat terrorism. These include data mining and social networking.

This is the second in a series of reports we are writing on terrorists’ tactics and applying information technologies to combat terrorism. In the first report, we provided an overview of various terror groups and briefly discussed the application of information technologies. In this current report, we provided more details of al Qaeda’s finance network and expressed the need to expand systems such as FinCEN for detecting changing patterns of terrorist financial transaction. Our goal is to make a terrorist group ineffective by thwart their funding. Our ultimate goal is for the agencies to share the right information at the right time to fight the global war on terror.